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Social Compliance as a Development Strategy Evidence from a Better Factories Cambodia Field Experiment

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Abstract

In 1998, Cambodia's development strategy included offering a record of social compliance in exchange for widened access to the U.S. apparel market. Working conditions in Cambodian apparel, textile and footwear factories were assessed under the auspices of the ILO. We conduct a field experiment during the period 2015-2018 to measure the development impact of the ILO's Better Factories Cambodia (BFC) assessments of factory compliance with ILO core labor standards and Cambodian labor law. Both workers and capital owners benefit from participation. Workhours declined by 8.8 percent, hourly pay increased by 41.1 percent and workers report a reduced need for overtime to meet basic necessities, a decline in concern with low wages and overtime and an increase in life satisfaction. Hourly productivity increased by 25.6-32.7 percent, indicating an increase in unit labor cost. However, the return to capital still rose due to an increase in the productivity of capital.

Keywords

International Labor Organization, Better Factories Cambodia, worker wellbeing, apparel industry, social compliance auditing, productivity, economic development

This paper presents findings from a field experiment measuring the impact of Better Factories Cambodia (BFC) on worker wellbeing, productivity and the return to capital. BFC is a factory auditing and capacity building program that monitors factory compliance with ILO core labor standards and Cambodian labor law.

The study began with a baseline survey of worker reports of wages, hours, indicators of working conditions and worker wellbeing and indicators of individual productivity. Factories were then stratified based on their most recent previous assessment. Within each stratum, factories were randomly assigned to one of two treatment groups. Factories in Group 1 had their next scheduled assessment one month early. Factories in Group 2 had their next assessment delayed by three months. Within each cohort, factories were then randomly assigned to one of three intervals between the baseline and endline data collections.

As a consequence of the intervention and data collection protocols, our data set consists of pairs of factories which were both due for an assessment but one had their survey data collection just before the assessment and the other just after the assessment. We also have pairs of factories which had assessments at the same time but one had their data collection two months after the assessment and the other had their data collection either six or twelve months after an assessment. Random assignment to program exposure allows us to measure the impact of a single audit as well as curing or decay of the program treatment effect in the months after an assessment.

We find that treatment does not have a statistically significant effect on weekly pay. However, weekly workhours decline by 5.8. All of the decline in hours is attributable to a decline in overtime. Pay per hour rises by USD 0.374 on a base of 0.91 USD, or 41.1 percent. In the months after an assessment and particularly after the third assessment, workers were less

likely to believe that they must regularly work overtime to earn sufficient income. We also detected a decline in concern with low wages and overtime and an increase in life satisfaction.

We then turned to the question of whether compliance with individual assessment points related to pay and hours drives improvement or whether the effect is attributable simply to participation in the program. Weekly pay is higher in factories that are compliant on overtime and minimum wage law. However, the treatment effect of assessments on individual points of compliance is weak, significant only at the 0.15 and 0.20 levels. We do not detect an assessment treatment effect on any of the points of compliance related to workhours. Taken together, these results indicate that improvements in wages and hours arise due to participation in the program, rather than new compliance on points related to pay or hours.

We then turn to the impact on worker productivity. Productivity is measured by the efficiency rate. The efficiency rate, a standard measure of productivity in the apparel sector, is the ratio of actual to planned production. The efficiency rate rises by 9.8 percentage points after the first assessment and 11.0 percentage points after the second assessment, for a total of 20.8 percentage points on a base of 97.2, or 21.4 percent. Using the log of the efficiency rate as the dependent variable, we find that productivity rises by 15.6 percent after the second assessment.

However, improvements in the efficiency rate underestimate the productivity gain if an anticipated or realized productivity gain leads the factory to increase planned production. We do, in fact, find that factories increase the production target by an estimated 44.8 percent after the first assessment and another 32.4 percent after the second assessment. This is likely an anticipation effect, as the target falls by 2.9 percent each month in the months after an assessment. Thus, after a year, the factory may have retreated from its original increase in the

target, resulting in a small increase in the target of about 10 percent after the first assessment and no change after the second.

Adding the treatment effect on the efficiency rate to the treatment effect on the target yields a total productivity gain between 25.6 and 31.4 percent. By comparison, the treatment effect on hourly pay is 41.1 percent. Such an outcome indicates that worker pay rose by considerably more than the increase in productivity associated with BFC participation, implying that BFC forced factories to share the productivity gains with workers. The rise in unit labor costs further indicates that BFC reduced exploitation of workers paid below their marginal value product.

An overall assessment of the impact on the return to capital depends on daily output per machine, the other compliance costs incurred by a factory and labor's cost share. Abstracting away from nonwage compliance costs, the return to capital rises for factories with a labor cost share below 0.78.

While the evidence from this study indicates that social compliance increases the return to capital. Managers are ambivalent about the business case. They generally believe that while social compliance increases productivity, there is no relationship to profits.

We make one final observation. Factories in our sample are, in fact, missing one of the largest potential gains from social compliance for capital. The fall in the length of the workday and the rise in the proportion of the time that workers are reaching their production target within the allotted time create the opportunity to increase capital utilization by adding a second work shift. However, no factories in the study did so.